



MINISTRY OF HUMAN RESOURCES  
INSTITUTE OF LABOUR MARKET INFORMATION AND ANALYSIS (ILMIA)

# THE SOCIO-ECONOMIC IMPACT FROM EMPLOYMENT OF LOW-SKILLED FOREIGN WORKER AND THE INTERNATIONAL INTERNSHIP PROGRAMME IN MALAYSIA





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Century Square, Jalan Usahawan

Cyber 6, 63000 Cyberjaya

Selangor

Tel: +03-8318 2433

Fax: +03-8890 2739

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**WAN ZULKFLI WAN SETAPA**

Advisor  
ILMIA

**RATANA SARIMIN**

Team Leader  
ILMIA

**ZURAINI ABU KASSIM**

Team Leader  
ILMIA

**AHMAD BADRI JAAFAR@ISMAIL**

Team Member  
ILMIA

**HARRIS GANI**

Team Member  
ILMIA

**DZULZALANI EDEN**

Author/Project Leader  
Universiti Malaysia Sarawak

**KARTINAH AYUPP**

Author/Consultant  
Universiti Malaysia Sarawak

**GOY SIEW CHING**

Author/Consultant  
Universiti Malaysia Sarawak

**AWANG IDERIS AWANG DAUD**

Author/Consultant  
Universiti Malaysia Sarawak

**NOR AFIZA ABU BAKAR**

Author/Consultant  
Universiti Malaysia Sarawak

**ABDUL JABBAR ABDULLAH**

Author/Consultant  
Universiti Teknologi MARA  
Sarawak Branch

**MOHD. AZIZUL HAFIZ JAMIAN**

Author/Consultant  
Universiti Malaysia Sarawak

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# EXECUTIVE SUMMARY

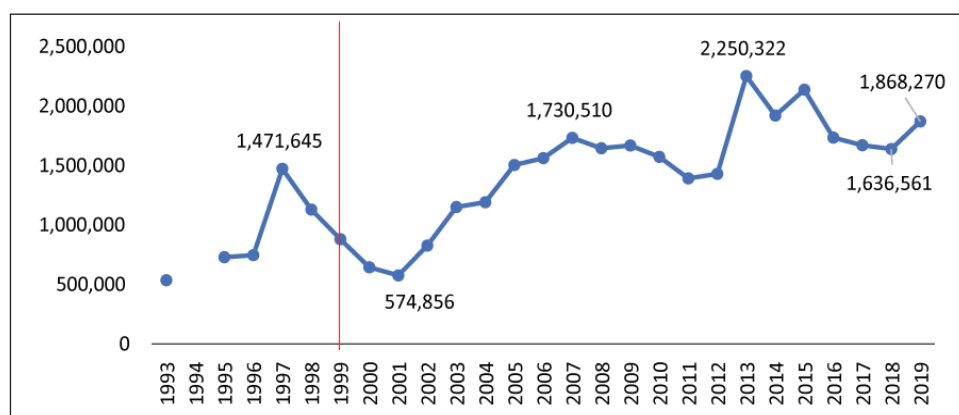
This study was commissioned by the Institute of Labour Market Information and Analysis to investigate the socio-economic impact from the employment of low skilled foreign workers and international internship programme in Malaysia.

It commenced on 1st June 2019 until 14th February 2020. This report contains eight Chapters. Chapter 1 outlines the background, scope and objectives of the study. The main objectives of the study are:

- to identify and verify the socioeconomic impact due to employment of low skilled foreign workers and international interns from the perspective of health, education, crime, etc.;
- to identify the economic impact due to employment of low skilled foreign workers and international interns from the perspective of wages, employment, job creation, productivity, automation etc.;
- to identify the international student internship programme landscape in Malaysia; and
- to propose recommendations and plan of action to the government to overcome the issues, challenges, limitation and weaknesses of existing foreign worker employment policies and the international internship programme from the study.

Chapter 2 discusses the trend of employment of foreign workers in Malaysia and past literature on their economic and socio-economic impacts. As a nation with the fourth largest number of migrants and seventh highest ratio of migrants to total population in East Asia Pacific (World Bank, 2015, 2017; Ang et al., 2018), the number of foreign workers in Malaysia has grown tremendously over the years due to Malaysia's rapid economic growth on average of about 6.2% per year since 1970.

**Table 1: Trend of Employment of Low-Skilled Foreign Workers 1993- 2019**



Source: Data 1993-2012 (Azizah Kasim, 2014); 2013-2017, 2019: MOHA (2020)  
Note: Data before 2000 include domestic workers

Over the years, manufacturing sector hires the most number of foreign workers, with over half a million annually between 2013 to 2019, followed by the construction and the services sector. The agriculture sector, however, shows the declining trend of foreign workers.



**Table 2: Number of Foreign Workers based on Sectors (2013 – 2019)**

Sector	2013	2014	2015	Year 2016	2017	2018	2019
Manufacturing	751,772	747,866	745,131	648,621	645,388	705,016	697,124
Construction	434,200	411,819	450,364	387,934	355,968	435,002	440,964
Services	269,321	270,048	293,433	253,120	247,008	282,494	314,910
Plantation	431,611	317,410	300,770	268,478	260,429	306,417	265,397
Agriculture	193,482	170,680	196,710	173,641	160,276	159,662	149,789
Quarrying & Mining*							86
<b>Total**</b>	<b>2,250,322</b>	<b>1,917,823</b>	<b>2,135,035</b>	<b>1,731,794</b>	<b>1,669,069</b>	<b>1,888,591</b>	<b>1,868,270</b>

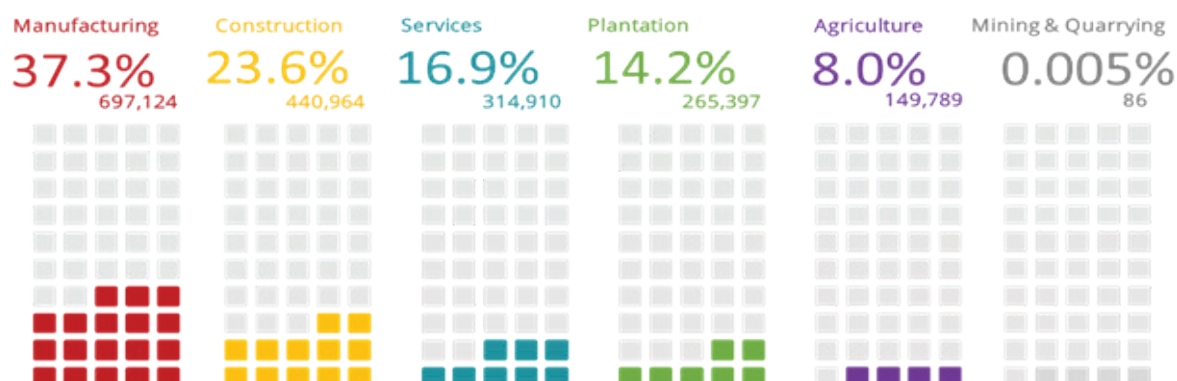
Source: Immigration Department of Malaysia (2020).

Note: \*Quarrying & Mining sector was categorized under services sector prior to 2019

\*\*The total number of low-skilled foreign workers exclude housemaid.

As of 31st December 2019, there are 1,868,270 low-skilled foreign workers in Malaysia, the majority of whom are employed in the manufacturing sector (37.3%) followed by construction (23.6%), plantation (14.2%), services (16.9%), and agriculture (8.0%).

**Figure 1: Low-Skilled Foreign Workers Based on Sectors 2019**



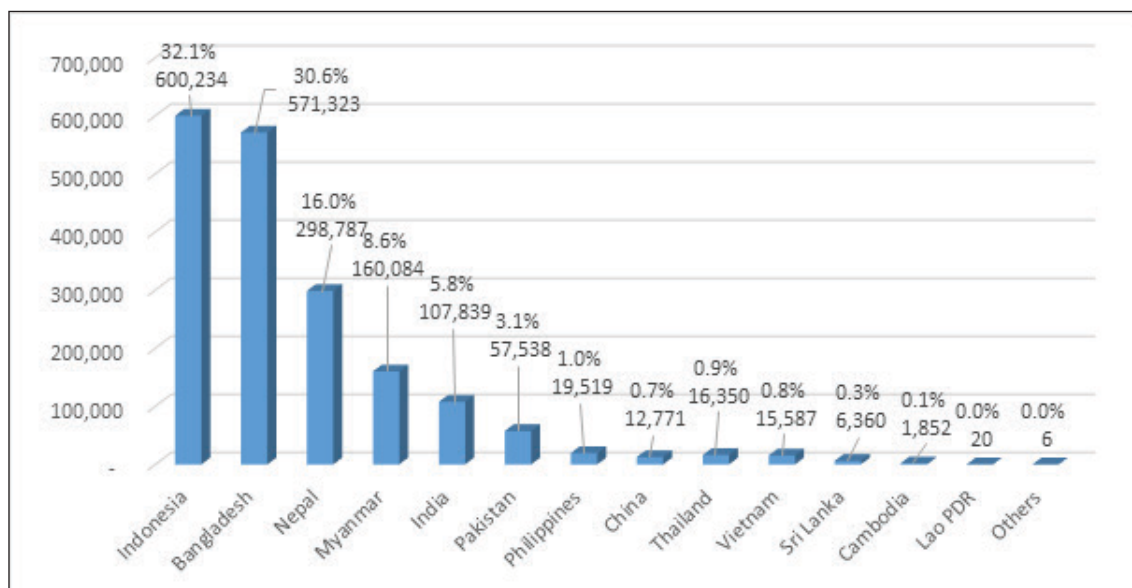
Source: Immigration Department of Malaysia (2020).

Note: The total number of low-skilled foreign workers exclude housemaid.

Indonesia and Bangladesh remain the biggest nationalities of low-skilled foreign workers in which they represent 32.1% and 30.6% of a total 1.8 million low-skilled foreign workers respectively. This is followed by Nepal (16%), Myanmar (8.6%), and India (5.8%). However, the trend saw a reducing inflow of Indonesian low-skilled foreign workers and an increasing (Figure 2) number of Bangladesh workers, particularly in 2018 and 2019 (Table 3).



Figure 2: Low-Skilled Foreign Worker Based on Source Countries 2019



Source: Immigration Department of Malaysia (2020).

Note: The total number of low-skilled foreign workers exclude housemaids

Table 3: Number of Foreign Workers Based on Country of Origin (2013 – 2019)

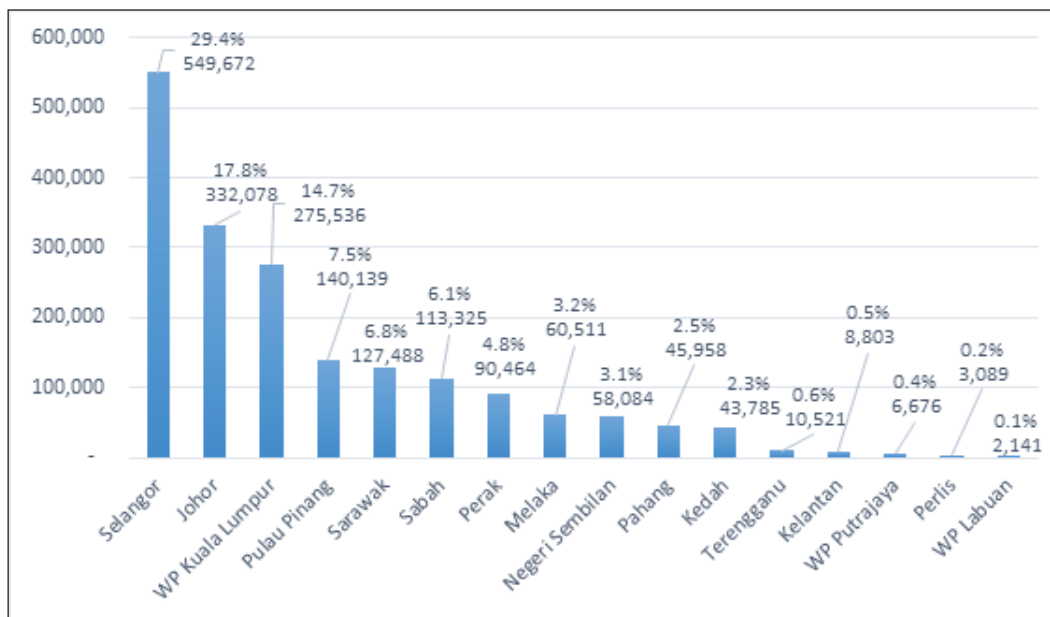
Nationality	2013	2014	2015	2016	2017	2018	2019
Indonesia	1,021,655	817,300	835,965	758,487	720,464	623,207	600,234
Nepal	385,466	490,297	502,596	405,336	388,836	346,253	298,787
Bangladesh	322,750	296,930	282,437	252,365	271,100	544,530	571,323
Myanmar	161,447	143,334	145,652	138,492	117,314	111,736	160,084
India	124,017	105,188	139,751	119,984	114,507	119,919	107,839
Pakistan	50,662	51,563	72,931	62,745	58,510	62,598	57,538
Philippines	69,126	63,711	65,096	58,366	55,184	20,862	19,519
Vietnam	52,990	54,652	48,426	32,549	25,088	19,622	15,587
China	11,712	12,288	13,174	13,441	20,442	16,238	12,771
Thailand	17,044	12,467	13,547	12,374	16,177	16,143	16,350
Sri Lanka	6,492	7,137	7,008	6,198	5,319	5,022	6,360
Cambodia	13,839	9,429	8,391	5,995	4,402	2,435	1,852
Laos	113	84	61	37	34	26	20
Others	13,009	9,034	-	-	-	-	6
<b>Total</b>	<b>2,250,322</b>	<b>2,073,414</b>	<b>2,135,035</b>	<b>1,866,369</b>	<b>1,797,377</b>	<b>1,888,591</b>	<b>1,868,270</b>

Source: Immigration Department of Malaysia (2020).

Note: The total number of low-skilled foreign workers exclude housemaids

The distribution of low-skilled foreign workers is concentrated in the more industrialised states with Selangor recorded with the highest number in 2019 (29%), followed by Johor (18%), Kuala Lumpur (15%), and Pulau Pinang (8%). While Sabah and Sarawak have around 6% respectively, other states have only less than 5% low-skilled foreign workers each.

Figure 3: Low Skilled Foreign Workers Based on State 2019



Source: Immigration Department of Malaysia (2020).  
Note: The total number of low-skilled foreign workers exclude housemaids

On the other hand, expatriates represent another category of foreign workers in Malaysia, in which their employment is to complement and fill the gaps within the skilled workforce. As of August 2019, their number totalled at 122,192 with Indian and Chinese nationality are consistently being the highest number of nationalities. The main sectors expatriates are employed in include services, information technology, manufacturing, and construction. Sectors categorized under "others" include education; finance; medical; agriculture; tourism; trading; transportation; mining; petroleum; and, sports.

Table 4: Number of Expatriates by Sectors 2017 – August 2019

SECTOR	2017	2018	2019 (up to August)
Services	66,732	58,953	64,684
Information Technology	30,309	26,198	38,572
Manufacturing	14,201	6,257	7,160
Construction	16,881	5,725	7,139
Others	5,391	3,402	4,637
<b>Total</b>	<b>133,514</b>	<b>100,535</b>	<b>122,192</b>

Source: Immigration Department of Malaysia, 2020.

This employment of foreign workers has led to an ongoing public debate on their impact to the Malaysian economy, and consequently their implications to the labour force. Among the arguments against the influx of foreign workers are that these foreign workers are taking away jobs from the locals, reducing their wages, while not having to pay taxes for using the public facilities. This is viewed as a barrier to Malaysia's vision to be a high-income economy as reliance on low-skilled foreign workers is perceived to be at the expense of investing in new technologies. Furthermore, the foreigners' presence is considered as hazardous to public health with many tested positive for infectious diseases that were once under control in Malaysia such as tuberculosis, hepatitis B, malaria etc. (Azizah, 2014).

Past literature with regards to the effect of foreign workers on economic and labour market remain inconclusive. The proponents view the presence of foreign workers contributes positively towards the competitiveness of a country. It is highlighted that the inflow of foreign workers does contribute positively to the economic growth of the host countries. Zimmermann (1995) claims that immigration creates extra demand for goods and services; thus, positively affecting output growth. Econometric modelling suggested that a 10% net increase in low-skilled foreign workers could increase Malaysia's

gross domestic product (GDP) by as much as 1.1%. Although it is widely believed that reliance on foreign workers could potentially lead to job losses of locals, the World Bank study (2013) indicates that more new jobs are created for Malaysians when foreign workers are recruited. For every 10 new immigrant workers in a given state and sector, up to five new jobs may be created for Malaysians in that state and sector (World Bank, 2013). The World Bank (2013) study also found that a 10% increase in immigration flow would slightly increase the wages of Malaysians by 0.14%.

In contrast, the opponents view that foreign workers negatively distort the labour market efficiency. It is argued that the reliance on low-skilled foreign workers in the long term could result in adverse effect on the labour market outcomes of its local workforce, such as wages and employment (Friedberg and Hunt, 1995). Low-skilled foreign workers are perceived as cheap and therefore they become the perfect substitute to its equivalent low-skilled local counterparts. Employers also have the preference to displace the natives with foreign workers when the latter is willing to accept lower wages or less favourable terms of employment at prevailing wages. The influx of low skilled foreign workers is anticipated to reduce the wage and worsen the employment opportunities of competing native-born workers. In addition to wage suppression and the creation of low-skilled occupations in the receiving country, high dependence on low-skilled foreign workers discourages firms from adopting more productivity-driven mechanism in production (Ang et al., 2018). While labour is relatively cheap, it weakens incentives for firms to substitute labour for technology or for greater value-adding activities from the employment of higher-skilled labour.

From socioeconomic perspective, the impact of the inflow of both skilled and low-skilled foreign workers in Malaysia has become an issue for public debate and is now an important national political agenda (Azizah Kassim, 2014). Some official reports and empirical studies have highlighted various threats to the locals partly attributable to foreign workers. These threats include matters related to health, crime, education and training as well urban spaces and economic opportunities.

**Health.** The influx of foreign workers has exposed Malaysians to health concerns. The spread of communicable diseases due to inflow of foreign workers from Indonesia, Cambodia, Vietnam, the Philippines, Myanmar, and South Asian countries (i.e. Nepal, India and Bangladesh) where endemic infections are very prevalent most likely poses public health problems to the local community.

**Crime.** There is less empirical evidence or data on the effects of low-skilled foreign workers on the volume of crimes in Malaysia. However, there are some signs of the potential contribution of these workers, who are mostly characterized as low-skilled, lowly educated and originating from less developed source countries, to the escalation of crime rates in the country.

**Education and Human Capital.** Majority of the Malaysian companies allocated budget towards the training and development of their workers, irrespective of nationalities. The highest allocation is given to the local workers, followed by the expatriate's category. This shows that the local workers are not being sidelined in terms of upskilling and overall development to ensure a sustainable and skilled Malaysian workforce. However, in terms of the transfer of knowledge between expatriates to local workers, there is still a lack of proper system in place. If this issue is not addressed, it can lead to a significant drain on the company's know-hows and impacted Malaysia productivity as the country have to continuously rely on foreign workers expertise.

**Urban Spaces and Business Opportunities.** The presence of foreign workers can also affect other social issues such as living spaces and business opportunities. As the number of foreign workers rose and their entrance into urban areas becomes more visible, public resentment towards them start to emerge. Foreign workers pose as a threat against the local urban poor in the competition for urban space and economic opportunities, to access limited supply of low-cost housing, public and social amenities, and petty trading opportunities (Azizah Kassim, 2014).

Chapter 3 discusses the global perspective of low skilled foreign workers. A set of standards and specific criteria for selecting nations which is considered appropriate for comparisons with Malaysia are

used for benchmarking exercise. Such criteria are based on the significant presence in the applicable development indices for either or two target groups of foreign individuals included in the scope of the analysis, the national economy classification, its area and rankings. Consequently, the benchmarking process only takes into consideration a country that meets the following specific fundamental filtering criteria;

- i. Significant presence of low-skilled foreign workers or employment of expatriates;
- ii. Economy classifications;
- iii. Geographical region based on International Labor Organization (ILO) classifications; and
- iv. International comparison based on development achievement parameters.

The filtering process has contributed to the selection of a total of 10 countries to be benchmarked with Malaysia. The nations include Australia, Canada, Japan, Norway, Qatar, Singapore, Thailand, United Arab Emirates (UAE), United Kingdom (UK) and the United States of America (USA). Most of the data were made available from the official websites of organizations and empirical data published in recognized academic reviews via desk research. Reports from the following respected international organizations are among the key sources of information used in the benchmarking exercise;

- i. International Labor Organization (ILO);
- ii. Organisation for Economic Co-operation and Development (OECD);
- iii. World Bank;
- iv. United Nations Development Programme (UNDP); and
- v. Individual country official statistics.

The following table provides a summary of the general and specific information for each of the selected indicators for Malaysia.

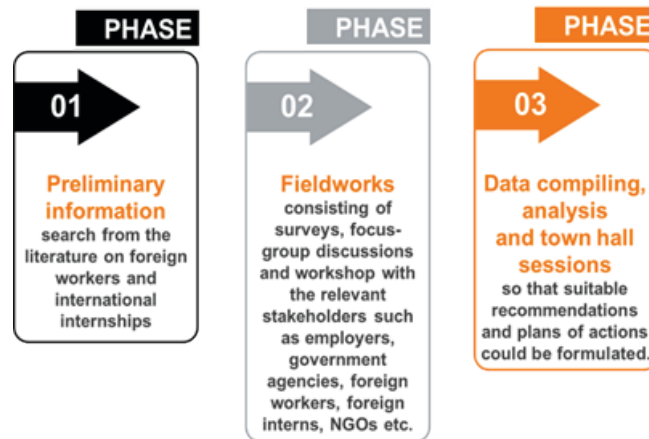
**Table 5: Selected Indicators for Malaysia**

INDICATOR	MALAYSIA'S STATUS/RANK	SOURCE
<b>LOW-SKILLED FOREIGN WORKERS (LSFWS)</b>		
Geographical Region	Asia and the Pacific	International Labour Organization (ILO), 2019
Economic Classification	Developing; Upper Middle Income	United Nation (UN), 2019
Population	32,580,000	Department of Statistics Malaysia (Q2, 2019)
GDP per Capita (US\$)	11,239.00	World Bank national accounts data & OECD National Accounts data files
Global Competitive Index 4.0	25th out of 140 countries	The Global Competitiveness Report 2018, World Economic Forum
Ranking of Happiness	80th out of 117 countries	World Happiness Report 2019
Human Development Index (HDI)	61 out of 189 countries & territories (very high human development)	Human Development Reports, UNDP, 2019
Total Number of Labor Force	15,710,000 (*August 2019)	Department of Statistics Malaysia, 2019
Labour Force Participation Rate (LFPR) (%)	68.3 (Total); 80.4 (Male); 55.2 (Female)	Department of Statistics Malaysia, 2019
Unemployment Rate (%)	3.3% (August 2019)	Department of Statistics Malaysia, 2019
Youth Unemployment Rate (%) *2018	10.5 (Total); 9.8 (Male); 11.4 (Female)	Labour Force Survey 2018
Total Foreign Workforce Numbers	1,905,130 LSFWS (July 2019)	Immigration Department of Malaysia, 2019
Ease of Hiring Foreign Labour	29th out of 140 countries	The Global Competitiveness Report, 2018
Top Source Countries	Bangladesh, Indonesia, Myanmar, Nepal and India	Ministry of Home Affairs (July 2019)
Minimum Wage	RM1,100 (Monthly), RM5.29 (Hourly)	
Levy Rate	Manufacturing, Construction & Services: RM1,850 Agriculture & Plantation: RM640	Ministry of Home Affairs
<b>EXPATRIATES</b>		
Top Expat Destinations	9th out of 64 countries listed	Expat Insider 2019
Top 3 Employment Sector	Education; Financial Services; Energy	Expat Explorer Broadening Perspectives, HSBC (2017)
Ease of Hiring Foreign Workers	29th out of 140 countries	The Global Competitive Report 2018

Source: Various reports by countries

Chapter 4 outlines the methodology used in this study. This study adopts a methodology that combines both primary and secondary sources across three phases of data collection. To ensure a comprehensive and in-depth analysis, a systematic approach was utilised to firstly identify the baseline data of the foreign workers and international interns, followed by identification of their population distribution and appropriate sampling frame. Both quantitative and qualitative research designs are utilised to gather information on the employment of foreign workers and placement of international interns. This project adopts different research designs for foreign workers and international interns as these two groups differ in terms of data source, employment landscape and governing bodies. The project has also adopted a range of research methods that encompass three phases of data collection.

Figure 4: Phases of Research Methods



The first phase involved a preliminary information search from the literature on foreign workers and international intern as the information was used as a guide to prepare for the second phase of the project that is fieldworks. The method consists of surveys, focus-group discussion (FGD), and in-depth interviews with the relevant stakeholders such as employers, government agencies, foreign workers, foreign interns, and NGOs. The third phase of the project involves data compilation, analysis, and town hall sessions to formulate recommendations and plans of actions.

In order to get more information in regards to the individual-based perspective in the form of Malaysian job-seekers' viewpoints, survey composed of job-seekers who attended the job fair organized by the Department of Labour across Peninsular Malaysia, Sarawak, and Sabah has been conducted. Respondents were randomly chosen as long as they qualify as being active Malaysian job-seekers currently unemployed or seeking better job prospects at the time of the survey. The number of respondents is divided as follows:

Table 6: Total Number of Respondents for Job-Seekers Survey

Regions	No. of Respondents
Peninsular Malaysia	260
Sarawak	151
Sabah	71
<b>Total</b>	<b>482</b>

As for the online survey of those, employers who hire foreign workers in Malaysia are sought to offer their perspective on the jobs of foreign workers and the issues of their companies. The sample used for this survey was acquired from the Labour Department of Peninsular Malaysia, Sarawak Labour Department, and Sabah Labour Department. While the companies selected are within the five main sectors that hire foreign workers, the survey also collects details about the low-skilled foreign workers carrying Temporary Foreign Worker Permit (LSFW) and expatriates hired by the firms. The total number of the respondents are as follows:

Table 7: Total Number of Respondents for Employer Online Survey

Regions	No. of Respondents
Peninsular Malaysia	380
Sarawak	104
Sabah	58
<b>Total</b>	<b>542</b>

For the International Internship online survey, the host companies which recruit the international interns within Malaysia are sought to offer their perspective on the issues of international internship programme as in their concern. The sample used for this survey was acquired from the TalentCorp, Department of Immigration Sabah, and Department of Immigration Sarawak. The total number of the host companies is 350 companies comprising of 342 companies in Peninsular Malaysia, 6 companies in Sabah, and 2 companies in Sarawak (TalentCorp; Department of Immigration Sabah; Department of Immigration Sarawak, 2019). The total number of host companies who responded on the online survey is as follows:

**Table 8: Total Number of Respondents Firm for International Internship Online Survey**

Response	No. of Companies
Total Host Companies	350
Registered in system	107
Completed	72
Usable for analysis	67

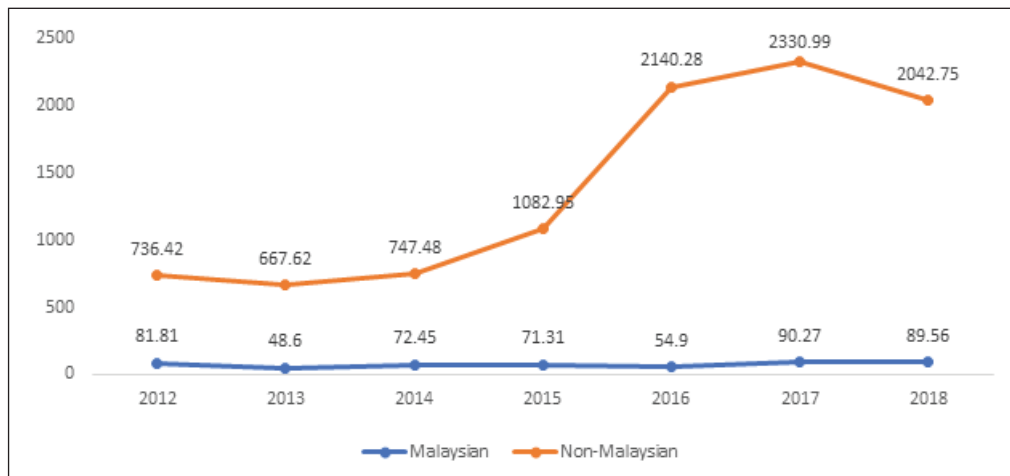
Other than that, town-halls are organised to fine-tune and gain buy-in from major stakeholders in respect of employment of foreign workers and placement of international interns in Malaysia. To ensure a broad and diverse representative of the wider community, a number of town-halls sessions have been conducted at four locations in Peninsular Malaysia, one at Kuching, and another at Kota Kinabalu.

In this study as well, impact of foreign workers on the labour market is analysed and determined. Skill-cell methodology has been adopted to understand how the labour market outcomes of local workers are affected by the inflow of foreign workers over time. Apart from that, the impact of foreign workers on labour productivity is also assessed using Cobb-Douglas production function. Furthermore, impact on youth unemployment arising from the influx of low-skilled foreign workers is explored to view the effect on unemployment of Malaysian youth in the 15-19 and 20-24 age categories over the time. Finally, the impact of foreign workers on the growth rate of GDP is examined using the standard Cobb-Douglas production function with dependent variable measured by real GDP growth using 2010 constant price, for a period from 1993 to 2008.

Chapter 5 discusses the findings on the socio-economic impacts of employment of foreign workers in the country. These are analysed from the standpoint of health, education, crime, social issues and business facilities. From the health perspective, although all foreign workers have to undergo medical examinations before they are eligible to work in the country, the process and governance differ according to the geographical location and type of employment pass applied. LSFWs have to undergo stricter screening process, compared to expatriates. For Peninsular Malaysia and Sabah, centralised body, namely FOMEMA Sdn Bhd., and Growarisan Sdn Bhd respectively, are tasked to implement the mandatory health screening for these respective regions, while in Sarawak, the medical screenings are conducted by any clinics appointed by the employers of these foreign workers. To counter healthcare costs incurred, Skim Perlindungan Insuran Kesihatan Pekerja Asing (SPIKPA) was introduced in 2011. Notwithstanding the above precautionary measure, there are instances of communicable diseases being detected after the FWs have been granted employment passes. Furthermore, sizable unpaid medical bills are also a worrying trend that lend towards a somewhat negative implications of the presence of these FWs.



Figure 5: Gap of Outstanding Bill Per Patient Between Malaysians and Foreigners



Source: Ministry of Health (MoH, 2019).

In terms of education, the impact can be viewed from two perspectives. Firstly, it is found that there is a lack of a systematic knowledge transfer from expats to local talents at the firm's level. This is a disadvantage to Malaysia as local talents are not given the proper avenue to learn new skill and knowledge that could be gained from these expats. Secondly, from the perspective of LSFWs, the worrying trend is the presence of CLCs especially within Sabah & Sarawak. Although there is legal restriction in terms of bringing in dependents of LSFWs into the country, the presence and continuous growth of CLCs' number in these two states imply that this issue is not being effectively contained in East Malaysia.

In terms of crime, legal FWs are found to have negligible involvement in criminal activities. However, due to media coverage of crime committed by foreigners, there is a negative public perception towards legal FWs. FWs are also found not be the perpetrators of social ills in Malaysia as their heavy work schedule and company-sponsored accommodation confined their socializing within the boundary of their respective workplaces. In terms of business facilities, although the number is small, there are some cases whereby FWs are found to abuse the condition of their work permits by carrying out illegal activities such as opening up businesses. This is especially prevalent in city areas where business opportunities are high.

Chapter 6 focuses the findings of this study on the economic impact of foreign workers on the outcomes of Malaysian workers in the labour market. In particular, we focus on the productivity of labour, labour market outcomes and the money transferred to home countries. The impact is investigated using both quantitative and qualitative approaches.

**Labour productivity.** Based on the National Employment Returns Survey, the findings suggest a significant negative relationship between intensity of foreign workers and labour productivity at the firm level. The negative impact on productivity is of great concern as most of the transient pool of hired foreign workers is of low-skilled and low-educated. When the skill composition of workers is considered in the empirical analysis, the role of labour quality in affecting productivity is corroborated. The implication of the finding implies that a strong base skilled workforce remains critical to attaining higher productivity. While the low-skilled workforce is likely to adversely affect a firm's productivity, firms will be discouraged from substituting low-skilled labour for physical capital, such as mechanisation and automation, if the influx of low-skilled foreign workers remains unchecked.

Qualitative findings based on focus group discussion indicate otherwise for productivity of low-skilled local and foreign workers. Most informants are of the opinion that low-skilled foreign workers are more productive than their local counterparts. Productivity in their context, however, is proxied using a rather simplistic measure which includes the number of units produced or tasks completed by workers in a given time. In addition, the concept of productivity is also arbitrarily equated with favourable

attitudes possessed by workers such as their willingness to work for long hours or overtime or on off days and public holidays which is considered as a prominent characteristic of foreign workers than their local counterparts. The interpretation of such claims needs to be treated with caution.

**Labour market outcomes.** Given the high unemployment rates among youths in Malaysia, there is a general perception that the presence of foreign workers hurts the locals of equal productivity. Based on the micro-level data from the Labour Force Survey provided by the Department of Statistics, the employment and wages of competing local workers are examined using the skill cell approach developed by Borjas (2003). The findings indicate that foreign workers have little effect on the wages of local workers. Nonetheless, the influx of foreign workers hurts employment of competing local workers. The estimated negative effect suggests that a 10% increase in the share of foreign workers relative to the local workforce in an education-experience cell decreases the employment rate of locals by about 0.41% in the labour force. That said, the displacement effect is only found to be statistically significant among locals with primary education and below.

**Table 9: Impact of the Foreign Worker Share on the Labour Market Opportunities of Locals Based on Education-Experience Grouping**

Dependent variable	Employment to Labour Force	Employment to Population	Wages
Weighted regression	-0.287c (0.0479)	-0.514c (0.0517)	0.069 (0.1313)
Unweighted regression	-0.111 (0.1537)	-0.334 (0.0722)	0.133 (0.2908)

Note:

Standard errors are reported in the parentheses and are adjusted for clustering within education-experience cells. Weighted regressions are weighted by the sample size of the education-experience-period cell. All regressions include experience and period fixed effects.

a significant at  $p < 0.01$ ; b at  $p < 0.05$  and c at  $p < 0.10$ .

**Table 10: Impact of foreign workers on local workers within education grouping**

Dependent variable	Primary and less	Secondary and certificate	Diploma and tertiary
<b>Panel A: Employment to Labour Force</b>			
Weighted regression	-0.369c (0.1460)	0.143 (0.3174)	-0.874 (1.0974)
Unweighted regression	-0.197 (0.1558)	0.124 (0.4307)	-0.860 (0.9691)
<b>Panel B: Employment to population</b>			
Weighted regression	-0.268c (0.1014)	0.949 (0.6393)	-0.672 (1.7937)
Unweighted regression	-0.397b (0.1161)	1.032 (0.8494)	-0.273 (1.3126)
<b>Panel C: Monthly wages</b>			
Weighted regression	0.188 (0.1293)	0.186 (0.0839)	-1.364 (2.2351)
Unweighted regression	0.325 (0.1293)	0.182 (0.0995)	-3.363 (3.1013)

Note:

Standard errors are reported in the parentheses and are adjusted for clustering within education-experience cells. Weighted regressions are weighted by the sample size of the education-experience-period cell. All regressions include experience and period fixed effects.

a significant at  $p < 0.01$ ; b at  $p < 0.05$  and c at  $p < 0.10$ .

Evidently, local working age youths with the lowest level of education suffer severe labour market competition with equally productive foreign workers. As low-educated and inexperienced local youths are new entrants to workplace, their employment opportunities are predisposed within low-skilled and semi-skilled jobs. The young new entrants, as remarked by the representative from firms at FGD, differ considerably from low-skilled foreign workers. The former has attitude and disciplinary problem at the

workplace. In sharp contrast, foreign workers are more willing to work at prevailing level of minimum wages, are less concerned regarding working conditions and more importantly, they are more than willing to work extended working hours. This dissimilarity may have caused firms to replace locals with low-skilled foreign workers and lead to high unemployment rates of youths aged 15-19 and 20-24. The incidence of unemployment among the latter that may attain tertiary education, to a large extent, is due to inadequate skilled jobs creation in the labour market.

Is there a basis that youths in general are more willing to continue being unemployed than to filling up the existing labour shortage in semi-skilled and low-skilled jobs? Contrary to the public perception that local youths are unwilling to take up low-skilled jobs, the findings based on Job Seekers Survey indicate otherwise. About two-third of job seekers are availing themselves to low-end spectrum jobs if the jobs are decently remunerated. The desired quantum varies, ranging from RM1600 to RM3000, depending on the respondents' socioeconomic profiles. On the other hand, when job seekers were asked on their preference of working conditions, respondents are less keen on doing shift work, working on weekend, public holidays and festive seasons. The less desired responses of job seekers towards longer working hours somewhat counter-intuitively serve the interest of employers in responding to labour shortage in the short run.

**Remittance outflows.** The estimated remittance is based on the monthly salary of LSFW workers. According to the National Employment Returns 2018, the median salary of LSFW workers was RM1,149 per month or RM13,788 per annum. If a LSFW worker remits on average 25% of their basic salary, the amount of total remittances based on existing 1.9 million of documented LSFW workers in Malaysia is estimated at RM6.6 billion annually. The amount reaches RM10.5 billion if the proportion of remittance is estimated at 40% of their median salary. As overtime work is common among LSFW workers, the estimated amount of remittance tends to increase due to the fact that they could earn between RM1800 to RM2500 per month. The estimated gross outflow of remittances is less than one percentage of GDP 2018 at current price. Thus, the long-term effect it has on the overall economy is likely to be limited.

Chapter 7 discusses the international internship programme which is another emerging category of foreigners into the Malaysian firm. These international interns are students currently studying in educational institutions in their home countries and undergoing internship in companies throughout Malaysia. There are two types of internship programmes currently available for international students namely:

- i. Social Visit Pass internship (SVP-I) -three (3) months or less; and
- ii. Professional Visit Pass (PVP) - for programme that requires more than three (3) months duration will need to apply for Professional Visit Pass

As of December 2019 a total of 14,730 interns have been approved to undergo their internship in the Malaysian firms in which 581 interns were under Social Visit Pass-Internship and 14,149 were issued with Professional Visit Pass (Internship)

**Table 11: Number of International Interns in Malaysian Firm 2015 -2019**

Types of International Internship Pass	2015	2016	2017	2018	2019	Total
Social Visit Pass-Internship (SVP-I)	7	94	125	158	197	581
Professional visit Pass- Internship (PVP-Internship)	110	2,756	3,288	3,677	4,318	14,149

Source: TalentCorp (2020).

While much is known about the number of international students in Malaysia, there is a lack of information and published data available to indicate the number of international students who study in educational institutions abroad but undergoing their internship in various firms in Malaysia. Furthermore, the impact of such programmes to the socio-economic and economic environment in particular on the labour market is yet to be explored. The International Internship Programme could

potentially impact the labour market in terms of employment and wage rates. Furthermore, the deployment of these interns in the Malaysian companies are not governed by any of the existing labour laws in Malaysia and hence, they too are not covered and protected compared to the low-skilled foreign workers.

International Internship Programme is gaining popularity among international students who aspire to gain intercultural exposure in their academic or vocational endeavors. In fact, in some countries like Australia, such a program has evolved into a huge commercial industry which is able to lure students worldwide and contribute significantly to the country's economy. In Malaysia, the program of similar nature has long been offered but little is known about it due to lack of comprehensive inquiry. Nevertheless, some facts from the ground today have heralded that the programme has thriven and able to attract a large pool of international students mainly from countries in the Asian region such as Indonesia, Nepal and India.

Capitalizing on the advantages of multiple data collection strategies involving relevant stakeholders, the present study has explored the width and breadth of the international internship program currently operative in Malaysia with the aim of unleashing the pertinent facts about it. Official data has shown that the total number of international interns in Malaysia is growing steadily with Indonesia leading the pack by registering a remarkable increase of interns in term of ratio from 35.5% in 2016 to 43.2% in 2018. In a similar vein, there is a rising trend spotted in the number of interns recruited per firm over the same period signalling the growth and receptiveness of host companies of the programme.

In term of governance and administrative aspect of the international internship programme, there is no clear flow of processes and procedures except for the application stage in which TalentCorp is in command. As a result, issues concerning monitoring and regulating the programme as a whole become central in public discourse. Data from fieldworks suggested that various modes are being used by host companies to recruit international interns. The most common is through memorandum of understanding between host companies and institutions of higher learning overseas. Aside from self-application, there are also companies that uses agents. The service of these agents incurs some fees to both intern prospects and host companies. A typical Indonesian intern, for example, pays about IDR5million inclusive of one-way air ticket, agent fees, and other miscellaneous expenses, to secure a place of internship in Malaysia. At the moment, majority of the international interns are recruited and placed in the services sector such as hotels and resorts. They receive an average monthly allowance of RM300 in addition to other benefits which include free accommodation, transport and meals provided by their respective host companies. The international interns are deployed by host companies like regular workers who work normal hours extendable to 12 hours and are entitled to overtime pay at the prevailing rate mandated by the law. Many host companies are of the opinion that international interns serve as a reliable alternative due to their willingness and availability to meet the manpower needs of their businesses. Apart from a few isolated instances of disciplinary cases, there have been no precarious socio-economic issues such as crime and health been reported relating to international interns.

Chapter 8 Based on the findings of the study, the jobs of foreign workers and the placement of international interns have raised issues that have an impact on both the economic and socio-economic aspects of Malaysia. The major issues pertaining to economic impact of employment of foreign workers include unattractive wages, low retention of local workers, stigma of 3D jobs, lack of incentive for employers to send employees for training, high dependency on LSFWs, long working hours, mismatch as well as hindrance to automation. The socio-economics aspect uncovers issues such as outstanding bills, recurrence of diseases, absence of single entity to coordinate health screening in Sarawak, recurrence of filariasis, increased establishment CLCs and misconception of public on LFW involvement in crime.

This study has highlighted various aspects of the impacts of employment of foreign workers and the international internship programme in Malaysia. It outlines practical measures for the respective governing agencies to develop evidence-based policies with regard to the management of foreign workers and international interns in Malaysia.

# ACRONYMS

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AIDS	Acquired Immunodeficiency Syndrome
CEC	Canadian Experience Class
CIDB	Construction Industry Development Board
CIDF-SKMM	Creative Industry Development Fund
CLCs	Community Learning Centers
CREED	Creative Industry Export Acceleration and Enterprise Development
DoSM	Department of Statistics Malaysia
EA	Employment Act 1955
EEA	European Economic Area
EP	Employment Pass
ePPAx	Foreign Workers Integrated Management System
ESD	Expatriate Services Division
FGDS	Focus group discussions
FMM	Federation of Malaysian Manufacturers
FW	Foreign workers
GCR	Global Competitiveness Report
GDP	Gross Domestic Product
GNI	Gross National Income
HDI	Human Development Index
HIV	Human Immunodeficiency Viruses
HRDF	Human Resources Development Fund
ICU	Intensive Care Unit
ILMIA	Institute for Labour Market Information and Analysis
ILO	International Labor Organization
IMI/JIM	Immigration Department of Malaysia
IMP	The International Mobility Program
	Institut Maklumat & Analisis Pasaran Buruh
JITCO	Japan International Training Cooperation Organization
JKE	<i>Jawatankuasa Pegawai Dagang/Ekspatriat</i>
JKLE	<i>Jawatankuasa Lokalisasi Ekspatriat</i>
JKL-PBP	<i>Jawatankuasa Lokalisasi Pekerja Bukan Pemastautin</i>
JPK	Department of Skills Development
JPPPAS	<i>Jawatankuasa Panel Perunding Pekerja Asing</i>
JTKSM	Department of Labour Peninsular Malaysia
KATS	Ministry of Water, Land and Natural Resources
KKR	Ministry of Works
LFPR	Labour Force Participation Rate
LFS	Labour Force Survey
LMIA	Labour Market Impact Assessment
LO Sabah	Labour Ordinance Sabah
LO Sarawak	Labour Ordinance Sarawak
LSFW	Low-Skilled Foreign Workers
LW	Local worker
MaGIC	Malaysia Global Innovation and Creativity Centre
MAMPU	Malaysian Administrative Modernisation and Management Planning Unit

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MDTCC	Ministry of Domestic Trade, Co-operatives and Consumerism
MEF	Malaysian Employers Federation
MESTECC	Ministry of Energy, Science, Technology, Environment and Climate Change
METI	Ministry of Economy, Trade and Industry
MIDF	Malaysian Industrial Development Finance Berhad
MITI	Ministry of International Trade and Industry
MOA	Ministry of Agriculture & Agro-Based Industry
MoH	Ministry of Health
MoHA	Ministry of Home Affairs
MoHR	Ministry of Human Resources
MoHRE	Ministry of Human Resources and Emiratization
MoT	Ministry of Transport
MoTAC	Ministry of Tourism and Culture
MOU	Memorandum of Understanding
MPI	Ministry of Primary Industries
MSEN	Monitoring System on the Employment of Non-Sarawakians
MyCEB	Malaysia Convention & Exhibition Bureau
MYXpats	Malaysia Expatriate Services Centre
NER	National Employment Returns
NGOs	Non-Governmental Organization
OECD	Organisation for Economic Co-operation and Development
OJT	On-The-Job Training
OLS	Ordinary least squares
OSC	One Stop Centre
PG	<i>Pas Penggajian</i>
PLKS	<i>Pas Lawatan Kerja Sementara</i>
PVP	Professional Visit Pass
RMP	Royal Malaysia Police
SIKK	<i>Sekolah Indonesia Kota Kinabalu</i>
	<i>Sistem Pengurusan Pekerja Asing Bersepadu</i>
SLMPA	<i>Sistem Lesen untuk Menggaji Pekerja Bukan Pemastautin</i>
SOP	Standard operating procedure
SPIKPA	<i>Skim Perlindungan Insurans Kesihatan Pekerja Asing</i> (Foreign Worker Hospitalization and Surgical Insurance Scheme – SKHPPA)
SPPA	<i>Sistem Permohonan Pekerja Asing</i>
STD	Sexually transmitted diseases
SVP-I	Social Visit Pass-Internship
TalentCorp	Talent Corporation Malaysia Berhad
TB	Tuberculosis
UAE	United Arab Emirates
UK	United Kingdom
UNDP	United Nations Development Programme
USA	United States of America
WESP	World Economic Situation and Prospects
3D	Dirty, Dangerous and Difficult



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